

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Lake City	County Missaukee
Fiscal Year End March 31, 2008	Opinion Date July 2, 2008	Date Audit Report Submitted to State August 4, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

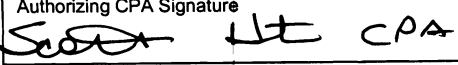
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 Letter and SAS 114 Letter	
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name Scott A. Hunter, C.P.A.	License Number 1101009890

CITY OF LAKE CITY, MICHIGAN

MARCH 31, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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REPORT OF EXAMINATION
CITY OF LAKE CITY, MICHIGAN
MARCH 31, 2008

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CITY OF LAKE CITY, MICHIGAN

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July 2, 2008

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Lake City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lake City, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lake City, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lake City, Michigan, as of March 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through x and 39, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lake City, Michigan's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2008

Management's Discussion and Analysis

The management of the City of Lake City, Michigan ("the City") offers this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2008. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the City's financial activity.

Financial Highlights

Government-Wide

- ❖ The assets of the City exceeded its liabilities at the close of this fiscal year by \$3,828,275 (shown as *Net Assets*), representing an increase of \$65,507 over the previous fiscal year. Governmental Funds represented an increase of \$41,254, while Business-Type activities accounted for an increase of \$24,253.

Fund Level Financial Highlights

- ❖ As of March 31, 2008, the governmental funds of the City of Lake City reported combined ending fund balances of \$647,612, of which \$645,984 is unreserved and \$1,628 is reserved.

Long-Term Debt

- ❖ The City of Lake City is not obligated under any long-term debt as of March 31, 2008, other than the debt owed by the Component Unit.

Overview of the Financial Statements

The City of Lake City's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements This report includes government-wide financial statements, required by GASB 34. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire City's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net

CITY OF LAKE CITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of these statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the City include water and sewer utility services.

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. There are three (3) basic types of funds: governmental funds, proprietary funds and fiduciary funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The City of Lake City uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

CITY OF LAKE CITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Proprietary Funds Proprietary funds account for services for which the City charges its customers for the services they are provided. These charges can be to external customers or other agencies within the City. There are two types of proprietary funds:

- Enterprise funds are used to report business-like activities of the City. These activities intend to recover the full cost of the services through the fee charged to the customers. The City has two enterprise funds, which are the Water Fund and the Sewer Fund.
- Internal Service funds are the second type of proprietary funds. These funds provide services to other departments within the City. These funds allow the City to allocate costs of centralized services such as the City's vehicle and equipment fleet. The City has one internal service fund, which is the Equipment Fund.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the City's programs.

Component Units The City's Financial Report includes reporting on separate legal entities for which the City has some level of financial responsibility. These funds are shown in a separate column. The City's component units include the Downtown Development Authority and the Downtown Development Authority 2000 Debt Retirement Fund.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the City's financial position over time. The Net Assets of the City are \$3,828,275 at March 31, 2008, meaning that the City's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. A

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2008

comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous fiscal year.

City of Lake City
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets						
Current Assets	\$ 900,589	\$ 799,365	\$ 410,603	\$ 321,368	\$ 1,311,192	\$ 1,120,733
Restricted Assets	0	0	212,584	226,587	212,584	226,581
Non Current Assets						
Capital Assets	1,654,625	1,629,013	3,132,977	3,113,752	4,787,602	4,742,765
Less:						
Accumulated Depreciation	(972,233)	(892,544)	(1,466,086)	(1,393,381)	(2,438,319)	(2,285,925)
Total Non Current Assets	682,392	736,469	1,666,891	1,720,371	2,349,283	2,456,840
Total Assets	\$ 1,582,981	\$ 1,535,834	\$ 2,290,078	\$ 2,268,326	\$ 3,873,059	\$ 3,804,154
Liabilities						
Current liabilities	\$ 40,704	\$ 34,811	\$ 4,080	\$ 6,581	\$ 44,784	\$ 41,392
Net Assets						
Invested in capital assets	682,392	736,469	1,666,891	1,720,371	2,349,283	2,456,840
Restricted for Specific Purposes	0	0	212,584	226,587	212,584	226,581
Unrestricted	859,885	764,554	406,523	314,787	1,266,408	1,079,341
Total Net Assets	1,542,277	1,501,023	2,285,998	2,261,745	3,828,275	3,762,762
Total Liabilities and Net Assets	\$ 1,582,981	\$ 1,535,834	\$ 2,290,078	\$ 2,268,326	\$ 3,873,059	\$ 3,804,154

The most significant portion of the City's Net Assets are cash and the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the City used to acquire or construct the asset. The City has \$1,266,408 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by City policies regarding their use.

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2008

The total net assets of the City increased \$65,507 in this fiscal year. Governmental type activities increased by \$41,254, while Business-type activities increased by \$24,253.

The following table illustrates and summarizes the results of the changes in the Net Assets for the City. The condensed information was derived from the Government-wide Statement of Activities.

City of Lake City
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$ 117,030	\$ 81,384	\$ 364,427	\$ 334,535	\$ 481,457	\$ 415,919
Operating Grants and Contributions	91,219	84,559	5,850	18,250	97,069	102,809
Capital Grants and Contributions	1,149	0	0	0	1,149	0
General Revenues						
Property Taxes	313,519	279,702	0	0	313,519	279,702
State Shared Revenue	79,178	84,012	0	0	79,178	84,012
Unrestricted Investment Earnings	5,138	4,973	9,338	10,104	14,476	15,077
Other	5,870	12,501	0	431	5,870	12,932
Total Revenues	613,103	547,131	379,615	363,320	992,718	910,451
<u>Expenses</u>						
Legislative	15,858	15,940	0	0	15,858	15,940
General Government, Administrative	190,912	174,956	0	0	190,912	174,956
Public Safety	32,370	40,705	0	0	32,370	40,705
Public Works	247,134	215,728	0	0	247,134	215,728
Culture and Recreation	79,381	83,928	0	0	79,381	83,928
Water	0	0	146,650	178,298	146,650	178,298
Sewer	0	0	208,712	210,091	208,712	210,091
Community and Economic Development	6,194	8,594	0	0	6,194	8,594
Total Expenses	571,849	539,851	355,362	388,389	927,211	928,240
Changes in Net Assets	41,254	7,280	24,253	(25,069)	65,507	(17,789)
NET ASSETS - Beginning of Year	1,501,023	1,493,743	2,261,745	2,286,814	3,762,768	3,780,557
NET ASSETS - End of Year	\$ 1,542,277	\$ 1,501,023	\$ 2,285,998	\$ 2,261,745	\$ 3,828,275	\$ 3,762,768

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2008

Governmental Activities

During the fiscal year ended March 31, 2008, the City's net assets increased by \$41,254. GASB 34 requires the City to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of the City of Lake City comes from property taxes. The City levied 12.8501 mills for operating purposes. The City has designated the following: 8.59 mills for general operating; 1.48 mills for local street maintenance; 1.20 mills for fire protection; 0.50 mills for law enforcement; and 1.0801 mills for cemetery maintenance.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. In 2008, the amount of state shared revenue received by the City trended downward as a whole, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

The City's governmental activities expenses are dominated by public works expenses that total 43.22% of total expenses. The City spent \$247,134 in fiscal year 2008 on public works expenses. General governmental represented the next largest expense at \$190,912 followed by culture and recreation at \$79,381.

Business-Type Activities

The City utilizes a Water Fund to account for its water operations. Revenue is collected from customers within the City. These charges for services totaled \$147,327 for 2008. Water operations experienced an \$8,580 increase in net assets.

The City utilizes a Sewer Fund to account for its sewer operations. Revenue is collected from customers within the City. These charges for services totaled \$217,100 for 2008. Sewer operations experienced a \$15,673 increase in net assets

Financial Analysis of the Government's Funds

Governmental Activities The focus of the City of Lake City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2008

At the end of the current fiscal year, the City of Lake City's governmental funds reported combined ending fund balances of \$647,612. Essentially, this entire amount constitutes unreserved fund balance. Approximately \$298,504 of the unreserved balance is designated for specific purposes by the City.

General Fund – The General Fund fund balance increased by \$9,653 which brings the fund balance to \$308,429. Of the fund balance, \$307,260 is unreserved while \$1,169 is reserved for prepaid expenditures.

Major Street Fund – The Major Street Fund increased its fund balance by \$15,310 which brings the fund balance to \$105,175. A large portion of this balance is designated for street improvements.

Local Street Fund – The Local Street Fund increased its fund balance by \$17,913 which brings the balance to \$88,416. A large portion of this balance is designated for street improvements.

The City designated 1.48 mills of its operating levy for local street improvements. This generated \$34,573 in tax related revenues during the current fiscal year.

Proprietary Fund The City's proprietary funds provide the same information as the government-wide statements.

Water Fund – The Water Fund ended the fiscal year with an increase in net assets of \$8,364. The unrestricted net assets increased \$16,159 and net assets invested in capital assets decreased by \$6,533.

Sewer Fund – The Sewer Fund ended the fiscal year with an increase in net assets of \$15,234. The unrestricted net assets increased \$74,922 and net assets invested in capital assets decreased by \$46,947.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for governmental and business-type activities as of March 31, 2008 amounted to \$2,349,283 net of accumulated depreciation.

CITY OF LAKE CITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED MARCH 31, 2008

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually and that have a useful life greater than one year.

City of Lake City
Capital Assets as of March 31, 2008

	Governmental Activities	Business-Type Activities	Total Primary Government
Land and Land Improvements	\$ 368,073	\$ 0	\$ 368,073
Construction in Progress	20,000	0	20,000
Buildings	279,928	0	279,928
Improvements Other than Buildings	13,500	2,910,140	2,923,640
Equipment, Furniture and Fixtures	444,577	222,837	667,414
Infrastructure	528,547	0	528,547
	<hr/> 1,654,625	<hr/> 3,132,977	<hr/> 4,787,602
Less Accumulated Depreciation	972,233	1,466,086	2,438,319
	<hr/>	<hr/>	<hr/>
Net Capital Assets	\$ 682,392	\$ 1,666,891	\$ 2,349,283
	<hr/>	<hr/>	<hr/>

The City is reconstructing a roof over the city hall during the 2007-2008 fiscal year.

Long-Term Debt. The City of Lake City currently has no long-term debt that the City is liable for.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state-shared revenues.

Factors such as this were considered in preparing the City's budgets for the 2008-09 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need any additional information, contact the City of Lake City at 115 W. John Street, Lake City, Michigan 49651.

CITY OF LAKE CITY, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2008

	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	
<u>ASSETS</u>				
Cash	\$ 753,381	\$ 358,499	\$ 1,111,880	\$ 114,715
Receivables				
Taxes	32,538	0	32,538	11,711
Accounts	5,361	14,620	19,981	0
External Parties (Fiduciary Funds)	75,753	3,715	79,468	0
Due from Other Governments	30,729	0	30,729	71,335
Inventory	0	31,164	31,164	0
Prepaid Expenses	2,827	2,605	5,432	0
Total Current Assets	900,589	410,603	1,311,192	197,761
<u>RESTRICTED ASSETS</u>				
Cash	0	162,158	162,158	0
Special Assessment Receivable	0	50,426	50,426	0
Total Restricted Assets	0	212,584	212,584	0
<u>CAPITAL ASSETS</u>				
Land and Land Improvements	368,073	0	368,073	630,538
Construction in Progress	20,000	0	20,000	0
Buildings	279,928	0	279,928	0
Improvements Other Than Buildings	13,500	2,910,140	2,923,640	0
Machinery and Equipment	444,577	222,837	667,414	0
Infrastructure	528,547	0	528,547	0
	1,654,625	3,132,977	4,787,602	630,538
Less Accumulated Depreciation	972,233	1,466,086	2,438,319	217,277
Net Capital Assets	682,392	1,666,891	2,349,283	413,261
TOTAL ASSETS	\$ 1,582,981	\$ 2,290,078	\$ 3,873,059	\$ 611,022

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2008

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	COMPONENT UNIT
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	\$ 12,141	\$ 6,541	\$ 18,682	\$ 0
Internal Balances	6,689	(6,689)	0	0
Accrued Expenditures	5,597	4,228	9,825	0
Accrued Interest	0	0	0	5,515
Due to Other Governments	16,277	0	16,277	0
Current Portion of Long-Term Debt	0	0	0	25,000
Total Current Liabilities	40,704	4,080	44,784	30,515
<u>LONG-TERM LIABILITIES</u>				
Bonds Payable	0	0	0	235,000
Less: Current Portion	0	0	0	(25,000)
Total Long-Term Liabilities	0	0	0	210,000
TOTAL LIABILITIES	40,704	4,080	44,784	240,515
<u>EQUITY</u>				
Net Assets:				
Invested in Capital Assets, Net of Related Debt	682,392	1,666,891	2,349,283	178,261
Restricted for Improvements	0	212,584	212,584	0
Unrestricted	859,885	406,523	1,266,408	192,246
TOTAL NET ASSETS	1,542,277	2,285,998	3,828,275	370,507
TOTAL LIABILITIES AND NET ASSETS	\$ 1,582,981	\$ 2,290,078	\$ 3,873,059	\$ 611,022

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			COMPONENT UNIT
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
PRIMARY GOVERNMENT								
<u>GOVERNMENTAL ACTIVITIES</u>								
Legislative	\$ 15,858	\$ 0	\$ 0	\$ 0	\$ (15,858)	\$ 0	\$ (15,858)	\$ 0
General Government	190,912	21,540	0	0	(169,372)	0	(169,372)	0
Public Safety	32,370	0	2,394	0	(29,976)	0	(29,976)	0
Public Works	247,134	77,665	88,825	1,149	(79,495)	0	(79,495)	0
Community and Economic Development	6,194	16,580	0	0	10,386	0	10,386	0
Culture and Recreation	79,381	1,245	0	0	(78,136)	0	(78,136)	0
Total Governmental Activities	571,849	117,030	91,219	1,149	(362,451)	0	(362,451)	0
<u>BUSINESS-TYPE ACTIVITIES</u>								
Water Fund	146,650	147,327	5,850	0	0	6,527	6,527	0
Sewer Fund	208,712	217,100	0	0	0	8,388	8,388	0
Total Business-Type Activities	355,362	364,427	5,850	0	0	14,915	14,915	0
TOTAL PRIMARY GOVERNMENT	\$ 927,211	\$ 481,457	\$ 97,069	\$ 1,149	(362,451)	14,915	(347,536)	0
<u>COMPONENT UNIT</u>								
Downtown Development Authority	\$ 49,624	\$ 0	\$ 0	\$ 0	0	0	0	(49,624)
<u>GENERAL REVENUES</u>								
Property Taxes					313,519	0	313,519	68,424
State Shared Revenue					79,178	0	79,178	0
Unrestricted Investment Earnings					5,138	9,338	14,476	1,540
Other					5,870	0	5,870	0
Total General Revenues					403,705	9,338	413,043	69,964
Change in Net Assets					41,254	24,253	65,507	20,340
<u>NET ASSETS</u> - Beginning of Year					1,501,023	2,261,745	3,762,768	350,167
<u>NET ASSETS</u> - End of Year					\$ 1,542,277	\$ 2,285,998	\$ 3,828,275	\$ 370,507

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

MARCH 31, 2008

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	NON-MAJOR FUNDS	TOTALS
<u>ASSETS</u>					
Cash	\$ 266,926	\$ 89,969	\$ 66,890	\$ 114,652	\$ 538,437
Receivables				0	
Taxes	23,019	0	3,307	6,212	32,538
Accounts	5,361	0	0	0	5,361
Due from Other Funds	75,762	939	14,697	25,029	116,427
Due from Other Governments	11,146	14,970	4,613	0	30,729
Prepaid Expenditures	1,169	86	101	272	1,628
TOTAL ASSETS	\$ 383,383	\$ 105,964	\$ 89,608	\$ 146,165	\$ 725,120

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 8,017	\$ 419	\$ 65	\$ 204	\$ 8,705
Accrued Expenditures	5,124	342	17	65	5,548
Due to Other Funds	44,618	28	952	8	45,606
Due to Other Governments	16,277	0	0	0	16,277
Deferred Revenue	918	0	158	296	1,372
Total Liabilities	74,954	789	1,192	573	77,508

FUND BALANCE

Reserved for:					
Prepaid Expenditures	1,169	86	101	272	1,628
Unreserved:					
Designated for:					
Street Improvements	0	105,089	88,315	0	193,404
Fire Protection	0	0	0	61,048	61,048
Law Enforcement	0	0	0	44,052	44,052
Undesignated	307,260	0	0	40,220	347,480
Total Fund Balance	308,429	105,175	88,416	145,592	647,612

TOTAL LIABILITIES AND FUND BALANCE	\$ 383,383	\$ 105,964	\$ 89,608	\$ 146,165	\$ 725,120
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The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2008

Total Fund Balances for Governmental Funds	\$ 647,612
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Land	\$ 19,500	
Land Improvements	348,573	
Construction in Progress	20,000	
Buildings	279,928	
Improvements Other Than Buildings	13,500	
Machinery and Equipment	9,458	
Infrastructure	528,547	
Accumulated Depreciation	<u>(652,760)</u>	566,746

Some assets are not available to pay for current period expenditures and therefore are deferred in the fund statements.	1,372
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Internal service funds are used by management to charge costs of certain activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	<u>326,547</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,542,277</u></u>
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The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2008

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	NON- MAJOR FUNDS	TOTALS
<u>REVENUES</u>					
Taxes	\$ 213,623	\$ 0	\$ 34,573	\$ 65,132	\$ 313,328
Licenses and Permits	1,245	0	0	0	1,245
State Grants	82,556	58,514	26,933	2,394	170,397
Charges for Services	79,300	0	0	19,905	99,205
Interest and Rents	21,043	184	185	306	21,718
Other Revenue	5,570	1,149	300	0	7,019
	<hr/>				
Total Revenues	403,337	59,847	61,991	87,737	612,912
<hr/>					
<u>EXPENDITURES</u>					
Legislative	15,858	0	0	0	15,858
General Government	172,065	0	0	33,090	205,155
Public Safety	0	0	0	31,916	31,916
Public Works	127,898	44,537	44,078	0	216,513
Community and Economic Development	6,194	0	0	0	6,194
Culture and Recreation	71,669	0	0	0	71,669
	<hr/>				
Total Expenditures	393,684	44,537	44,078	65,006	547,305
<hr/>					
Excess (Deficiency) of Revenues Over Expenditures	9,653	15,310	17,913	22,731	65,607
<hr/>					
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers In (Out)	0	0	0	0	0
	<hr/>				
Net Change in Fund Balance	9,653	15,310	17,913	22,731	65,607
<hr/>					
<u>FUND BALANCES</u> - Beginning of Year	298,776	89,865	70,503	122,861	582,005
<hr/>					
<u>FUND BALANCES</u> - End of Year	\$ 308,429	\$ 105,175	\$ 88,416	\$ 145,592	\$ 647,612
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The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008

Net Change in Fund Balance - Total Governmental Funds	\$ 65,607
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of these assets are allocated over their estimated useful lives and reported as depreciation in the statement of activities.	
Depreciation Expense	(50,998)
Capital Outlay	20,000
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in personal property tax revenue deferred using the modified accrual method	191
Internal service funds are used by management to charge costs of certain activities to individual funds. The net revenue (expense) of the internal service fund is reported within the governmental activities.	
	<u>6,454</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 41,254</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
BALANCE SHEET
MARCH 31, 2008

	<u>BUSINESS TYPE ACTIVITIES -</u> <u>ENTERPRISE FUNDS</u> <u>MAJOR FUNDS</u>	
	<u>WATER</u>	<u>SEWER</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 110,157	\$ 248,342
Accounts Receivable	5,803	8,817
Due from Other Funds	641	8,100
Inventory	31,164	0
Prepaid Expense	1,128	1,477
Total Current Assets	148,893	266,736
<u>NONCURRENT ASSETS</u>		
<u>RESTRICTED ASSETS</u>		
Cash	18,248	143,910
Special Assessments Receivable	9,819	40,607
Total Restricted Assets	28,067	184,517
<u>CAPITAL ASSETS</u>		
Improvements Other Than Buildings	1,149,027	1,761,113
Machinery and Equipment	0	222,837
	1,149,027	1,983,950
Less Accumulated Depreciation	566,103	899,983
Net Capital Assets	582,924	1,083,967
Total Noncurrent Assets	610,991	1,268,484
TOTAL ASSETS	\$ 759,884	\$ 1,535,220
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 4,412	\$ 2,129
Accrued Expenses	1,276	2,952
Due to Other Funds	27	61
Total Current Liabilities	5,715	5,142
<u>NET ASSETS</u>		
Invested in Capital Assets	582,924	1,083,967
Restricted for Improvements	28,067	184,517
Unrestricted	143,178	261,594
Total Net Assets	754,169	1,530,078
TOTAL LIABILITIES AND NET ASSETS	\$ 759,884	\$ 1,535,220

The accompanying notes are an integral part of the financial statements.

TOTALS	INTERNAL SERVICE FUND
\$ 358,499	\$ 214,944
14,620	0
8,741	0
31,164	0
2,605	1,199
415,629	216,143
162,158	0
50,426	0
212,584	0
2,910,140	0
222,837	435,119
3,132,977	435,119
1,466,086	319,473
1,666,891	115,646
1,879,475	115,646
\$ 2,295,104	\$ 331,789
\$ 6,541	\$ 3,436
4,228	49
88	6
10,857	3,491
1,666,891	115,646
212,584	0
404,772	212,652
2,284,247	328,298
\$ 2,295,104	\$ 331,789

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS

RECONCILIATION OF THE BALANCE SHEET OF PROPRIETARY FUNDS
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2007

Total Net Assets - Total Proprietary Funds	\$ 2,284,247
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Amounts reported for proprietary activities in the statement of
net assets are different because:

Internal service funds are used by management to charge costs of
certain activities to individual funds. The assets and liabilities of the
internal service fund are allocated to governmental activities.
This creates an internal balance referred to as the crossover amount
which needs to be adjusted for.

1,751

NET ASSETS OF PROPRIETARY FUNDS	<u><u>\$ 2,285,998</u></u>
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The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED MARCH 31, 2008

	<u>BUSINESS TYPE ACTIVITIES -</u> <u>ENTERPRISE FUNDS</u> <u>MAJOR FUNDS</u>	
	<u>WATER FUND</u>	<u>SEWER FUND</u>
<u>OPERATING REVENUES</u>	\$ 147,327	\$ 217,100
<u>OPERATING EXPENSES</u>		
Personal Services	28,386	55,045
Contracted Services	23,348	11,268
Retirement	2,000	3,000
Health and Life Insurance	14,170	22,503
Uniforms	194	165
Supplies	886	4,044
Gasoline and Oil	0	0
Legal Advertisements	305	0
Audit	1,000	1,000
Utilities	22,141	21,105
Repairs and Maintenance	5,452	22,155
Laboratory Analysis	7,040	6,238
Equipment Rental	6,506	667
Insurance	8,493	10,993
Continuing Education	120	0
Dues	1,005	3,941
Miscellaneous	62	80
Depreciation	25,758	46,947
Total Operating Expenses	146,866	209,151
Operating Income (Loss)	461	7,949

The accompanying notes are an integral part of the financial statements.

TOTALS	INTERNAL SERVICE FUND
<u>\$ 364,427</u>	<u>\$ 77,914</u>
83,431	4,366
34,616	314
5,000	0
36,673	2,266
359	0
4,930	4,201
0	10,064
305	0
2,000	500
43,246	0
27,607	13,347
13,278	0
7,173	0
19,486	9,455
120	0
4,946	0
142	0
<u>72,705</u>	<u>28,691</u>
<u>356,017</u>	<u>73,204</u>
<u>8,410</u>	<u>4,710</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEAR ENDED MARCH 31, 2008

	<u>BUSINESS TYPE ACTIVITIES -</u> <u>ENTERPRISE FUNDS</u> <u>MAJOR FUNDS</u>	
	<u>WATER FUND</u>	<u>SEWER FUND</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Wellhead Protection Grant	5,850	0
Interest Revenue	2,015	2,435
Interest on Special Assessments	38	4,850
Total Nonoperating Revenues (Expenses)	7,903	7,285
Change in Net Assets	8,364	15,234
<u>TOTAL NET ASSETS</u> - Beginning of Year	745,805	1,514,844
<u>TOTAL NET ASSETS</u> - End of Year	\$ 754,169	\$ 1,530,078

The accompanying notes are an integral part of the financial statements.

<u>TOTALS</u>	<u>INTERNAL SERVICE FUND</u>
5,850	0
4,450	2,399
<u>4,888</u>	<u>0</u>
<u>15,188</u>	<u>2,399</u>
23,598	7,109
<u>2,260,649</u>	<u>321,189</u>
<u><u>\$ 2,284,247</u></u>	<u><u>\$ 328,298</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2008

Net Change in Fund Net Assets - Total Proprietary Funds	\$ 23,598
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Amounts reported for proprietary activities in the statement of activities are different because:

Internal service funds are used by management to charge costs of certain activities to individual funds. The net revenue (expense) of internal service fund is reported with governmental type activities. This creates an internal balance referred to as the crossover amount that needs to be adjusted for.

655

CHANGE IN NET ASSETS OF PROPRIETARY FUNDS	<u>\$ 24,253</u>
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The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2008

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS MAJOR FUNDS	
	WATER FUND	SEWER FUND
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 150,154	\$ 216,626
Cash Received from Interfund Services Provided and Used	0	0
Cash Payments to Suppliers for Goods and Services	(95,353)	(108,886)
Cash Payments to Employees for Services	(28,207)	(54,023)
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	26,594	53,717
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(19,225)	0
Wellhead Protection Grant	5,850	0
Collections of Special Assessments	71	14,903
	<hr/>	<hr/>
Net Cash Provided (Used) for Capital and Related Financing Activities	(13,304)	14,903
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Interest Received	2,015	2,435
Interest on Special Assessments	38	4,850
	<hr/>	<hr/>
Net Cash Provided (Used) by Investing Activities	2,053	7,285
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	15,343	75,905
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	113,062	316,347
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 128,405	\$ 392,252
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

<u>TOTALS</u>	<u>INTERNAL SERVICE FUND</u>
\$ 366,780	\$ 0
0	77,914
(204,239)	(40,991)
<u>(82,230)</u>	<u>(4,884)</u>
<u>80,311</u>	<u>32,039</u>
(19,225)	(5,612)
5,850	0
<u>14,974</u>	<u>0</u>
<u>1,599</u>	<u>(5,612)</u>
4,450	2,399
<u>4,888</u>	<u>0</u>
<u>9,338</u>	<u>2,399</u>
91,248	28,826
<u>429,409</u>	<u>186,118</u>
<u><u>\$ 520,657</u></u>	<u><u>\$ 214,944</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2008

BUSINESS TYPE ACTIVITIES -
ENTERPRISE FUNDS
MAJOR FUNDS

WATER FUND	SEWER FUND
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RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ 461	\$ 7,949
<hr/>		
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	25,758	46,947
(Increase) Decrease in Current Assets		
Accounts Receivable	3,468	3,929
Due from Other Funds	(641)	(4,403)
Inventory	(2,547)	0
Prepaid Expense	(44)	(49)
Increase (Decrease) in Current Liabilities		
Accounts Payable	(13)	(1,739)
Other Accrued Expenses	179	1,022
Due to Other Funds	(27)	61
	<hr/>	
Total Adjustments	26,133	45,768
	<hr/>	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 26,594	\$ 53,717
	<hr/> <hr/>	

The accompanying notes are an integral part of the financial statements.

<u>TOTALS</u>	<u>INTERNAL SERVICE FUND</u>
<u>\$ 8,410</u>	<u>\$ 4,710</u>
72,705	28,691
7,397	0
(5,044)	0
(2,547)	0
(93)	54
(1,752)	(896)
1,201	(518)
34	(2)
<u>71,901</u>	<u>27,329</u>
<u><u>\$ 80,311</u></u>	<u><u>\$ 32,039</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS
MARCH 31, 2008

	<u>AGENCY</u>
<u>ASSETS</u>	
Cash	\$ 310,604
	<hr/>
<u>LIABILITIES</u>	
Due to Other Governments	\$ 231,136
Due to Other Funds	79,468
	<hr/>
TOTAL LIABILITIES	310,604
	<hr/>
<u>NET ASSETS</u>	0
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 310,604
	<hr/>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Lake City, Michigan, was incorporated under the laws of the State of Michigan and operates under an elected Mayor-Council form of government. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the primary government. Each blended and discretely presented component unit has a March 31 year end.

BLENDED COMPONENT UNITS

The City has no blended component units.

DISCRETELY PRESENTED COMPONENT UNITS

Downtown Development Authority (DDA) – The DDA was established pursuant to the provisions of Act No. 197 of the Public Acts of Michigan 1975. The members of the governing board of the Downtown Development Authority are appointed by the City Council. The Authority's operational and capital budgets must be approved by the City Council.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The City of Lake City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state trunklines.

The *Local Street Fund* receives all local street money paid to the city by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The City of Lake City reports the following major proprietary funds:

The *Water and Sewer Funds* account for the provision of water and sewer services to the residents of the City and certain adjacent areas. All activities related to such services are accounted for in the water and sewer system funds which are generally self-supporting. Primary financing is provided through user-charges.

Additionally the City of Lake City reports the following fund types:

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The *proprietary funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The *internal service funds* account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the City holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF LAKE CITY, MICHIGAN

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MARCH 31, 2008

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund, and of the City's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The City's investment policy conforms to state statutes.

The Investment policy of the City authorizes the following investments:

- a) Passbook Savings
- b) Negotiable Certificates of Deposit
- c) Nonnegotiable Certificates of Deposit
- d) Repurchase agreements backed by U.S. government or federal agency obligations.
- e) All bonds, securities and obligations of the United States or any of its agencies or instrumentality's
- f) Bankers acceptance of United States banks

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

CITY OF LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and county taxes are levied and due July 1, and become delinquent after September 14. City and the balance of county and school taxes are levied and due December 1, and become delinquent after February 14. Collections of school and county taxes and remittances of them are accounted for in the Current Tax Collection Fund. City property tax revenues are recognized when they become both measurable and available for use to finance City operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2007 taxable valuation of the City of Lake City totaled \$26,209,469, on which ad valorem taxes levied consisted of 12.8501 mills for the City of Lake City operating purposes. These levies raised approximately \$336,791 for operating purposes and a portion of these taxes levied were captured by the Downtown Development Authority

3. *Inventories and Prepaid Items*

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of proprietary funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Restricted Assets*

Certain proceeds of enterprise fund special assessment bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

CITY OF LAKE CITY, MICHIGAN

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MARCH 31, 2008

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Public domain infrastructure	50
Vehicles	10
Equipment	5-10

6. *Long-term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

1. Prior to March 31, the City Superintendent submits to the City Council a proposed operating budget for all governmental funds for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 31, the budget is legally enacted through passage of a budget ordinance. Budgets are submitted on a line-item basis but adopted by the Council on a major function basis.
4. All transfers of budget amounts between functions within the General Fund and any revisions that alter the total expenditures of any fund must be approved by the City Council. General Fund expenditures may not legally exceed budgeted appropriations at the major function level. Expenditures in all other governmental funds may not exceed appropriations at the total fund level.
5. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end. Budgeted amounts are as originally adopted, or as amended by the City Council from time to time throughout the year.
7. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

B. The City had no funds with expenditures in excess of appropriations for the year ended March 31, 2008.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The City's deposits and investments are on deposit with Chemical Bank in Lake City, Michigan and Fifth Third Bank in Traverse City, Michigan.

Investment rate risk. The City will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the City's cash requirements.

CITY OF LAKE CITY, MICHIGAN
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Foreign currency risk. The City does not have a policy on this type of risk.

Credit risk. The City will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the City's investment policy; and pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors with which the City will do business in accordance with the City's investment policy.

Concentration of credit risk. The City will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2008, \$763,755 of the City's bank balance of \$1,564,559 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of the same date the discretely presented component unit's had exposure to custodial credit risk because \$14,715 of the bank balance of \$114,715 was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City currently has no investments.

A reconciliation of cash and investments follows:

	PRIMARY GOVERNMENT	COMPONENT UNITS
Cash on Hand	\$ 125	\$ 0
Carrying amount of Deposits	1,584,517	114,715
Total	<u>\$ 1,584,642</u>	<u>\$ 114,715</u>
Government-wide Statement of Net Assets		
Cash	\$ 1,111,880	\$ 114,715
Restricted Assets - Cash	162,158	0
Statement of Fiduciary Net Assets		
Cash	310,604	0
Total	<u>\$ 1,584,642</u>	<u>\$ 114,715</u>

CITY OF LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, internal service, and fiduciary funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	Major Street	Local Street	Water Fund	Sewer Fund	Nonmajor and Other Funds	Total
Receivables							
Taxes	\$ 23,019	\$ 0	\$ 3,307	\$ 0	\$ 0	\$ 6,212	\$ 32,538
Accounts	5,361	0	0	5,803	8,817	0	19,981
Special							
Assessments	0	0	0	9,819	40,607	0	50,426
Intergovernmental	11,146	14,970	4,613	0	0	0	30,729
Receivables	<u>\$ 39,526</u>	<u>\$ 14,970</u>	<u>\$ 7,920</u>	<u>\$ 15,622</u>	<u>\$ 49,424</u>	<u>\$ 6,212</u>	<u>\$ 133,674</u>

By ordinance, the City can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Deferred Revenue		
	Unavailable	Unearned	Total
Delinquent property taxes receivable			
General Fund	\$ 918	\$ 0	\$ 918
Local Street Fund	158	0	158
Fire Fund	128	0	128
Law Fund	53	0	53
Cemetery Fund	115	0	115
	<u>\$ 1,372</u>	<u>\$ 0</u>	<u>\$ 1,372</u>

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 19,500	\$ 0	\$ 0	\$ 19,500
Construction in Progress	0	20,000	0	20,000
Total Capital Assets, Not Being Depreciated	19,500	20,000	0	39,500
Capital Assets, Being Depreciated				
Buildings	279,928	0	0	279,928
Improvements other than Buildings	13,500	0	0	13,500
Land Improvements	348,573	0	0	348,573
Machinery and Equipment	9,458	0	0	9,458
Infrastructure	528,547	0	0	528,547
Total capital assets, being depreciated	1,180,006	0	0	1,180,006
Less Accumulated Depreciation For:				
Buildings	127,283	7,094	0	134,377
Improvements other than buildings	3,117	900	0	4,017
Land Improvements	176,553	17,353	0	193,906
Machinery and Equipment	2,621	1,492	0	4,113
Infrastructure	292,188	24,159	0	316,347
Total Accumulated Depreciation	601,762	50,998	0	652,760
Total Capital Assets, Being Depreciated, Net	578,244	(50,998)	0	527,246
Governmental Activities Capital Assets, Net	597,744	(30,998)	0	566,746
Internal Service Fund Net Capital Assets				115,646
Net Capital Assets per Statement of Net Assets				<u>\$ 682,392</u>

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

Business-Type Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, being depreciated				
Improvements other than buildings	\$ 2,890,915	\$ 19,225	\$ 0	\$ 2,910,140
Machinery and Equipment	222,837	0	0	222,837
Total capital assets, being depreciated	3,113,752	19,225	0	3,132,977
Less accumulated depreciation for:				
Improvements other than buildings	1,245,059	60,981	0	1,306,040
Machinery and Equipment	148,322	11,724	0	160,046
Total accumulated depreciation	1,393,381	72,705	0	1,466,086
Total capital assets, being depreciated, net	1,720,371	(53,480)	0	1,666,891
Business-type activities capital assets, net	\$ 1,720,371	\$ (53,480)	\$ 0	\$ 1,666,891

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 6,282
Public Safety	460
Public Works, including depreciation of general infrastructure assets	35,436
Culture and Recreation	8,820
Total depreciation expense - governmental activities	<u>\$ 50,998</u>

Business-type activities:

Water Fund	\$ 25,758
Sewer Fund	46,947
Total depreciation expense - business-type activities	<u>\$ 72,705</u>

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

Discretely Presented Component Units:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Government-Type Activities:</u>				
Capital Assets, being depreciated				
Improvements other than buildings	\$ 630,538	\$ 0	\$ 0	\$ 630,538
Less accumulated depreciation for:				
Improvements other than buildings	185,750	31,527	0	217,277
Total capital assets, being depreciated, net	<u>\$ 444,788</u>	<u>\$ (31,527)</u>	<u>\$ 0</u>	<u>\$ 413,261</u>

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2008, were:

<u>FUND</u>	INTERFUND	INTERFUND PAYABLES
General Fund	\$ 75,762	\$ 44,618
Major Street Fund	939	28
Local Street Fund	14,697	952
Fire Fund	12,215	0
Law Fund	5,372	0
Cemetery Fund	7,442	8
Equipment Fund	0	6
Water Fund	641	27
Sewer Fund	8,100	61
Tax Collection Fund	0	79,468
	<u>\$ 125,168</u>	<u>\$ 125,168</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at March 31, 2008, are expected to be repaid within one year.

As of March 31, 2008, there were no Interfund Transfers.

CITY OF LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-Term Debt

1. Primary Government

The City of Lake City does not have any debt outstanding at March 31, 2008.

2. Component Unit

The following is a summary of debt transactions of the City of Lake City's discretely presented component unit for the year ended March 31, 2008:

	REVENUE BONDS
Debt Payable at April 1, 2007	\$ 255,000
New Debt Incurred	0
Debt Retired	(20,000)
Debt Payable at March 31, 2008	<u>\$ 235,000</u>

Debt payable at March 31, 2008, is comprised of the following issues:

\$350,000 Lake City Downtown Development Authority Bonds, bonds due in annual installments of \$25,000 to \$35,000 through May 1, 2015; interest at 5.45% to 5.75% due May 1, and November 1, of each year; this debt is serviced from tax revenues of the Lake City Downtown Development Authority with secondary security of the full faith and credit of the City	<u>\$ 235,000</u>
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The annual requirements to amortize this debt as of March 31, 2008, are as follows:

YEAR ENDING MARCH 31,	COMPONENT UNIT
2009	
PRINCIPAL	\$ 25,000
INTEREST	12,554
TOTAL	<u>37,554</u>
2010	
PRINCIPAL	25,000
INTEREST	11,185
TOTAL	<u>36,185</u>

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

2011	
PRINCIPAL	25,000
INTEREST	9,804
TOTAL	<u>34,804</u>
2012	
PRINCIPAL	30,000
INTEREST	8,270
TOTAL	<u>38,270</u>
2013	
PRINCIPAL	30,000
INTEREST	6,583
TOTAL	<u>36,583</u>
2014-2016	
PRINCIPAL	100,000
INTEREST	8,906
TOTAL	<u>108,906</u>
GRAND TOTAL	
PRINCIPAL	235,000
INTEREST	57,302
TOTAL	<u>\$ 292,302</u>

F. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the City has reserved fund balances/retained earnings in various funds. In addition, certain portions of unreserved fund balances/retained earnings have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

NET ASSETS

Restricted

Water and Sewer Fund Improvements	<u>\$ 212,584</u>
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FUND BALANCE

Reserved

General Fund

Prepaid Expenditures	\$ 1,169
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Special Revenue Funds

Major Street Fund

Prepaid Expenditures	\$ 86
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CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

Local Street Fund		
Prepaid Expenditures	101	
Cemetery Fund		
Prepaid Expenditures	258	
Law Fund		
Prepaid Expenditures	14	459
Component Units		
Downtown Development Authority 2000 Debt Retirement Fund		
Debt Service		1,230
TOTAL FUND BALANCE/NET RESERVES	\$	2,858
Unreserved-Designated		
Special Revenue Funds		
Major Street Fund		
Street Improvement	\$	105,089
Local Street Fund		
Street Improvement		88,315
Fire Fund		
Fire Protection		61,048
Law Fund		
Law Enforcement		44,052
TOTAL FUND BALANCE DESIGNATIONS	\$	298,504

IV. OTHER INFORMATION

A. Statement of Cash Flows

For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

B. Due from Other Governments

Amounts due from other governments consist of \$30,729 in state-shared revenues and other miscellaneous items.

C. Retirement Benefits

The City funds retirement benefits by making direct contributions to a SEP plan (Simplified Employee Pension). These accounts are the property of the employees and, therefore, are not treated as part of the City's reporting entity. The total pension cost for the year was \$10,000 and covered payroll was \$147,285.

D. Component Unit Disclosures

The following presents the condensed financial statements for the discretely presented component unit.

Condensed Financial Statements - Discretely Presented Component Unit
Balance Sheet

	DOWNTOWN DEVELOPMENT AUTHORITY FUND
Assets	
Current Assets	\$ 198,991
Liabilities	
Current Liabilities	\$ 1,230
Fund Balance	197,761
TOTAL LIABILITIES AND FUND BALANCE	\$ 198,991

CITY OF LAKE CITY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2008

Statement of Revenues, Expenditures, and Changes in Fund Balance

	DOWNTOWN DEVELOPMENT AUTHORITY FUND
Revenues	\$ 69,964
Expenditures	
Debt Service	<u>33,775</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 36,189</u>
Other Financing Sources (Uses)	
Transfers In	\$ 33,775
Transfers Out	<u>33,775</u>
Total Other Financing Sources (Uses)	<u>\$ 0</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Sources (Uses)	\$ 36,189
Fund Balance - Beginning of Year	<u>161,572</u>
Fund Balance - End of Year	<u><u>\$ 197,761</u></u>

E. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The City carries commercial insurance for casualty, workers' disability compensation, employee health and accident insurance.

F. Lake Missaukee Area Fire Authority

The Lake Missaukee Area Fire Authority is a joint venture by and between the City of Lake City and the townships of Caldwell, Forest, Lake, Pioneer, and Reeder. This joint venture was created to provide fire protection for the listed governments. Each municipality pays as annual base amount equal to one-half of one mill of taxable value of the real property located in the areas of the municipality covered by this agreement. In addition, the City pays for each fire run within the City.

CITY OF LAKE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2008

For the year ended March 31, 2008, the City contributed a total of \$11,906 to the Fire Authority.

The following financial information was taken from the Fire Authority's March 31, 2007 audited financial statements.

Total Assets	\$ 591,487
Total Liabilities	60,835
Investment in Capital Assets	496,001
Net Assets Invested in Capital Assets	
Net of Related Debt	435,166
Net Assets - Unrestricted	95,486
Total Revenues	161,423
Total Expenses	139,961
Change in Net Assets	21,462

The Lake Missaukee Area Fire Authority's total liabilities can be broken down as follows:

Loan Payable	\$ 60,835
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A copy of these audited financial statements may be obtained upon request from the Fire Authority Treasurer.

G. Sale of Future Revenues

For several years, the City has sold its rights to delinquent real property tax revenues and related late payment penalties to the Missaukee County treasurer. For the 2007 tax roll the City received a lump sum payment of \$27,384 for general operating tax revenues. These amounts represent 100% of the present value of the delinquent real property tax revenues. In exchange for these payments, the county is allowed to keep delinquent taxes collected plus the late payment penalties charged. If the county is ultimately unable to collect any of these delinquent taxes, the City will have to repay the county.

CITY OF LAKE CITY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2008

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>									
Taxes	\$ 184,603	\$ 179,003	\$ 213,623	\$ 0	\$ 0	\$ 0	\$ 29,911	\$ 29,911	\$ 34,573
Licenses and Permits	1,000	1,000	1,245	0	0	0	0	0	0
State Grants	80,000	83,000	82,556	48,000	53,000	58,514	25,000	25,000	26,933
Charges for Services	43,700	72,000	79,300	0	0	0	0	0	0
Interest and Rents	17,600	16,750	21,043	100	100	184	100	100	185
Other Revenue	14,200	8,700	5,570	0	0	1,149	0	0	300
Total Revenues	341,103	360,453	403,337	48,100	53,100	59,847	55,011	55,011	61,991
<u>EXPENDITURES</u>									
Legislative	16,650	16,550	15,858	0	0	0	0	0	0
General Government	148,990	260,135	172,065	0	0	0	0	0	0
Public Works	107,500	132,760	127,898	45,525	50,600	44,537	46,755	47,895	44,078
Community and Economic Development	9,440	7,250	6,194	0	0	0	0	0	0
Culture and Recreation	191,310	76,365	71,669	0	0	0	0	0	0
Total Expenditures	473,890	493,060	393,684	45,525	50,600	44,537	46,755	47,895	44,078
Excess (Deficiency) of Revenues Over Expenditures	(132,787)	(132,607)	9,653	2,575	2,500	15,310	8,256	7,116	17,913
<u>OTHER FINANCING SOURCES (USES)</u>									
Transfers In (Out)	0	0	0	0	0	0	0	0	0
Net Change in Fund Balance	(132,787)	(132,607)	9,653	2,575	2,500	15,310	8,256	7,116	17,913
<u>FUND BALANCE</u> - Beginning of Year	298,776	298,776	298,776	89,865	89,865	89,865	70,503	70,503	70,503
<u>FUND BALANCE</u> - End of Year	\$ 165,989	\$ 166,169	\$ 308,429	\$ 92,440	\$ 92,365	\$ 105,175	\$ 78,759	\$ 77,619	\$ 88,416

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

The General Fund is the operating fund of the City. It is used to account for the resources devoted to finance the services traditionally associated with local government, except those activities that are required to be accounted for in another fund. Transactions are recorded on the modified accrual basis.

MAJOR STREET FUND

The Major Street Fund accounts for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state trunklines.

LOCAL STREET FUND

The Local Street Fund receives all local street money paid to the City by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

<u>ASSETS</u>		<u>2008</u>	<u>2007</u>
Cash		\$ 266,926	\$ 294,982
Accounts Receivable		5,361	3,946
Taxes Receivable		23,019	25,884
Due from Other Funds		75,762	126
Due from Other Governments		11,146	12,115
Prepaid Expenditures		1,169	1,145
TOTAL ASSETS		<u>\$ 383,383</u>	<u>\$ 338,198</u>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable		\$ 8,017	\$ 5,483
Accrued Expenditures		5,124	3,244
Due to Other Funds		44,618	15,673
Due to Other Governments		16,277	14,223
Deferred Revenue		918	799
Total Liabilities		<u>74,954</u>	<u>39,422</u>
<u>FUND BALANCE</u>			
Reserved for Prepaid Expenditures		1,169	1,145
Unreserved		307,260	297,631
Total Fund Balance		<u>308,429</u>	<u>298,776</u>
TOTAL LIABILITIES AND FUND BALANCE		<u>\$ 383,383</u>	<u>\$ 338,198</u>

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2007

	2008		2007
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 179,003	\$ 213,623	\$ 195,269
Licenses and Permits	1,000	1,245	1,970
State Grants	83,000	82,556	84,012
Charges for Services	72,000	79,300	50,686
Interest and Rents	16,750	21,043	21,756
Other Revenue	8,700	5,570	10,632
Total Revenues	360,453	403,337	364,325
<u>EXPENDITURES</u>			
Legislative	16,550	15,858	15,940
General Government			
Elections	3,200	2,958	3,222
Independent Accounting and Audit	7,510	7,505	7,392
Assessor	15,100	14,936	14,217
Clerk	22,975	20,998	19,883
Treasurer	17,225	15,755	15,165
Buildings and Grounds	175,570	97,507	73,401
Other Functions	18,555	12,406	10,872
Public Works	132,760	127,898	103,515
Community and Economic Development	7,250	6,194	8,594
Culture and Recreation	76,365	71,669	131,909
Total Expenditures	493,060	393,684	404,110
Excess (Deficiency) of Revenues			
Over Expenditures	(132,607)	9,653	(39,785)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	0	0	(8,000)
Net Change in Fund Balance	(132,607)	9,653	(47,785)
<u>FUND BALANCE</u> - Beginning of Year	298,776	298,776	346,561
<u>FUND BALANCE</u> - End of Year	\$ 166,169	\$ 308,429	\$ 298,776

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

ANALYSIS OF REVENUES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2007

	<u>2008</u>		<u>2007</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>TAXES</u>			
Current and Delinquent Taxes	\$ 174,603	\$ 201,650	\$ 184,210
Property Tax Administration Fee	4,400	11,973	11,059
Total Taxes	179,003	213,623	195,269
<u>LICENSES AND PERMITS</u>			
Building and Zoning Permits	1,000	1,245	1,970
<u>STATE GRANTS</u>			
Sales and Use Tax	79,600	79,178	80,618
Telecommunications Right of Way Maintenance	3,400	3,378	3,394
Total State Grants	83,000	82,556	84,012
<u>CHARGES FOR SERVICES</u>			
Refuse Collection	60,000	59,355	49,048
Compost and Chipping	12,000	18,310	0
Summer Tax Collection	0	1,635	1,638
Total Charges for Services	72,000	79,300	50,686
<u>INTEREST AND RENTS</u>			
Interest	500	4,463	4,353
Maple Grove Rent	16,250	16,580	17,403
Total Interest and Rents	16,750	21,043	21,756
<u>OTHER REVENUE</u>			
Franchise Fees	7,200	3,820	7,678
Other Revenue	1,500	1,750	2,954
Total Other Revenue	8,700	5,570	10,632
TOTAL REVENUES	\$ 360,453	\$ 403,337	\$ 364,325

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2007

	<u>2008</u>		<u>2007</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>LEGISLATIVE</u>			
Mayor and City Council			
Personal Services	\$ 15,800	\$ 15,308	\$ 15,391
Supplies	250	165	281
Miscellaneous	500	385	268
	<u>16,550</u>	<u>15,858</u>	<u>15,940</u>
<u>GENERAL GOVERNMENT</u>			
Elections			
Personal Services	1,900	1,838	2,277
Supplies	850	828	817
Miscellaneous	450	292	128
	<u>3,200</u>	<u>2,958</u>	<u>3,222</u>
Independent Audit			
Audit Fees	<u>7,510</u>	<u>7,505</u>	<u>7,392</u>
Assessor			
Supplies	100	0	3,190
Contracted Services	15,000	14,936	11,027
	<u>15,100</u>	<u>14,936</u>	<u>14,217</u>
Clerk			
Personal Services	13,500	13,136	11,903
Supplies	2,750	2,572	2,053
Contracted Services	3,500	2,277	2,793
Legal Advertisements	2,150	2,089	1,229
Utilities	550	496	1,455
Repairs and Maintenance	100	0	116
Miscellaneous	425	428	334
	<u>22,975</u>	<u>20,998</u>	<u>19,883</u>

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2007

	2008		2007
	BUDGET	ACTUAL	ACTUAL
Treasurer			
Personal Services	6,500	6,327	3,644
Supplies	5,000	3,356	7,983
Contracted Services	5,200	5,522	3,124
Utilities	100	78	0
Miscellaneous	425	472	414
	<u>17,225</u>	<u>15,755</u>	<u>15,165</u>
Buildings and Grounds			
Personal Services	32,000	30,722	25,789
Health and Life Insurance	10,750	10,496	7,409
Insurance	4,400	4,033	4,052
Supplies	3,500	2,610	4,145
Utilities	7,000	6,693	5,055
Telephone	2,400	2,404	2,476
Contracted Services	7,500	5,515	7,615
Repairs and Maintenance	7,500	7,857	6,655
Equipment Rental	4,500	4,223	3,485
Retirement	2,500	2,500	2,500
Miscellaneous	520	454	406
Capital Outlay	93,000	20,000	3,814
	<u>175,570</u>	<u>97,507</u>	<u>73,401</u>
Other Functions			
Personal Services	7,000	6,547	6,271
Health and Life Insurance	1,500	1,446	1,252
Insurance	730	651	617
Supplies	150	221	349
Contracted Services	3,200	1,746	911
Dues	1,000	895	820
Miscellaneous	4,975	900	652
	<u>18,555</u>	<u>12,406</u>	<u>10,872</u>

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2007

	2008		2007
	BUDGET	ACTUAL	ACTUAL
<u>PUBLIC WORKS</u>			
Street Lighting	18,000	17,708	17,028
Sanitation			
Personal Services	21,700	21,012	18,920
Health and Life Insurance	5,500	5,185	4,371
Contracted Services	73,000	71,746	51,545
Legal Advertisements	300	260	0
Supplies	750	471	559
Equipment Rental	12,000	10,483	10,499
Repairs and Maintenance	250	0	63
Insurance	660	607	530
Utilities	600	426	0
	114,760	110,190	86,487
<u>COMMUNITY AND ECONOMIC DEVELOPMENT</u>			
Planning and Zoning			
Personal Services	7,000	6,135	8,205
Supplies	75	0	21
Legal Advertisements	50	42	159
Dues and Miscellaneous	125	17	209
	7,250	6,194	8,594
<u>CULTURE AND RECREATION</u>			
Parks and Recreation			
Personal Services	27,000	25,802	26,482
Health and Life Insurance	10,100	9,463	8,709
Legal Advertisements	500	0	315
Retirement	2,500	2,500	2,500
Uniforms	700	152	585
Insurance	1,215	1,105	1,008
Supplies	900	1,875	1,683
Contracted Services	4,000	3,465	7,747

CITY OF LAKE CITY, MICHIGAN

GENERAL FUND

ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2007

	<u>2008</u>		<u>2007</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
Utilities	7,500	7,212	7,815
Telephone	600	439	621
Repairs and Maintenance	7,000	6,538	18,067
Equipment Rentals	13,000	12,140	12,663
Capital Outlay	100	0	42,929
Dues and Miscellaneous	1,250	978	785
	<u>76,365</u>	<u>71,669</u>	<u>131,909</u>
 Total Expenditures	 493,060	 393,684	 404,110
 <u>OTHER FINANCING USES</u>			
Transfers Out			
Cemetery Fund	<u>0</u>	<u>0</u>	<u>8,000</u>
 TOTAL EXPENDITURES AND OTHER FINANCING USES	 <u>\$ 493,060</u>	 <u>\$ 393,684</u>	 <u>\$ 412,110</u>

CITY OF LAKE CITY, MICHIGAN

MAJOR STREET FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	2008	2007
<u>ASSETS</u>		
Cash	\$ 89,969	\$ 80,654
Due from Other Funds	939	0
Due from Other Governments	14,970	11,333
Prepaid Expenditures	86	35
TOTAL ASSETS	<u>\$ 105,964</u>	<u>\$ 92,022</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 419	\$ 74
Accrued Expenditures	342	342
Due to Other Funds	28	1,084
Due to Other Governments	0	657
Total Liabilities	<u>789</u>	<u>2,157</u>
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	86	35
Unreserved		
Designated for Street Improvements	105,089	89,830
Total Fund Balance	<u>105,175</u>	<u>89,865</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 105,964</u>	<u>\$ 92,022</u>

CITY OF LAKE CITY, MICHIGAN

MAJOR STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2007

	2008		2007
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
State Grants	\$ 53,000	\$ 58,514	\$ 55,786
Interest	100	184	170
Other Revenues	0	1,149	0
Total Revenues	53,100	59,847	55,956
<u>EXPENDITURES</u>			
Public Works			
Personal Services	12,000	10,471	8,294
Health and Life Insurance	4,000	3,537	3,290
Contracted Services	1,000	873	794
Audit	925	925	925
Repairs and Maintenance	7,000	5,277	5,653
Equipment Rental	24,000	22,388	17,572
Insurance	575	506	524
Miscellaneous	100	51	103
Supplies	1,000	509	547
Total Expenditures	50,600	44,537	37,702
Excess (Deficiency) of Revenues Over Expenditures	2,500	15,310	18,254
<u>FUND BALANCE</u> - Beginning of Year	89,865	89,865	71,611
<u>FUND BALANCE</u> - End of Year	\$ 92,365	\$ 105,175	\$ 89,865

CITY OF LAKE CITY, MICHIGAN

LOCAL STREET FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash	\$ 66,890	\$ 57,110
Taxes Receivable	3,307	4,299
Due from Other Funds	14,697	5,241
Due from Other Governments	4,613	4,734
Prepaid Expenditures	101	39
	<hr/>	<hr/>
TOTAL ASSETS	\$ 89,608	\$ 71,423
	<hr/>	<hr/>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 65	\$ 636
Accrued Expenditures	17	127
Due to Other Funds	952	14
Deferred Revenue	158	143
	<hr/>	<hr/>
Total Liabilities	1,192	920
	<hr/>	<hr/>
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	101	39
Unreserved		
Designated for Street Improvements	88,315	70,464
	<hr/>	<hr/>
Total Fund Balance	88,416	70,503
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 89,608	\$ 71,423
	<hr/>	<hr/>

CITY OF LAKE CITY, MICHIGAN

LOCAL STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2007

	2008		2007
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 29,911	\$ 34,573	\$ 31,646
State Grants	25,000	26,933	26,463
Interest	100	185	174
Other Revenue	0	300	1,869
Total Revenues	55,011	61,991	60,152
<u>EXPENDITURES</u>			
Public Works			
Personal Services	8,000	7,151	8,892
Health and Life Insurance	2,600	2,464	2,312
Audit	525	525	525
Contracted Services	5,000	6,218	6,878
Repairs and Maintenance	10,000	6,146	926
Equipment Rental	19,500	19,908	20,640
Insurance	700	603	647
Supplies	1,500	1,010	824
Miscellaneous	70	53	47
Total Expenditures	47,895	44,078	41,691
Excess (Deficiency) of Revenues Over Expenditures	7,116	17,913	18,461
<u>FUND BALANCE</u> - Beginning of Year	70,503	70,503	52,042
<u>FUND BALANCE</u> - End of Year	\$ 77,619	\$ 88,416	\$ 70,503

MAJOR PROPRIETARY FUNDS

Water and Sewer Funds

The Water and Sewer Funds account for the provision of water and sewer services to the residents of the City and certain adjacent areas. All activities related to such services are accounted for in the water and sewer system funds which are generally self-supporting. Primary financing is provided through user-charges.

CITY OF LAKE CITY, MICHIGAN

WATER FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

<u>ASSETS</u>	2008	2007
<u>CURRENT ASSETS</u>		
Cash	\$ 110,157	\$ 93,623
Accounts Receivable	5,803	9,271
Inventory	31,164	28,617
Due from Other Funds	641	0
Prepaid Expense	1,128	1,084
Total Current Assets	148,893	132,595
<u>NONCURRENT ASSETS</u>		
<u>RESTRICTED ASSETS</u>		
Cash	18,248	19,439
Special Assessments Receivable	9,819	9,890
Total Restricted Assets	28,067	29,329
<u>CAPITAL ASSETS</u>		
Water Wells, Distribution System and Equipment	1,149,027	1,129,802
Less Accumulated Depreciation	(566,103)	(540,345)
Net Capital Assets	582,924	589,457
Total Noncurrent Assets	610,991	618,786
TOTAL ASSETS	\$ 759,884	\$ 751,381
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 4,412	\$ 4,425
Accrued Expenses	1,276	1,097
Due to Other Funds	27	54
Total Current Liabilities	5,715	5,576
<u>NET ASSETS</u>		
Invested in Capital Assets	582,924	589,457
Restricted for Improvements	28,067	29,329
Unrestricted	143,178	127,019
Total Net Assets	754,169	745,805
TOTAL LIABILITIES AND NET ASSETS	\$ 759,884	\$ 751,381

CITY OF LAKE CITY, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>OPERATING REVENUES</u>		
Charges for Services	\$ 130,413	\$ 121,538
Hydrant Rental	8,400	8,400
Water Tower Rental	8,514	8,277
Total Operating Revenues	147,327	138,215
<u>OPERATING EXPENSES</u>		
Personal Services	28,386	33,060
Retirement	2,000	2,000
Health Insurance	14,170	14,324
Uniforms	194	116
Supplies	886	849
Legal Advertisements	305	382
Contracted Services	23,348	1,938
Audit and Accounting Fees	1,000	1,000
Utilities	22,141	21,459
Repairs and Maintenance	5,452	53,510
Laboratory Analysis	7,040	8,419
Equipment Rental	6,506	8,035
Insurance	8,493	8,518
Continuing Education	120	60
Dues	1,005	255
Miscellaneous	62	0
Depreciation	25,758	24,877
Total Operating Expenses	146,866	178,802
Operating Income (Loss)	461	(40,587)

CITY OF LAKE CITY, MICHIGAN

WATER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Wellhead Protection Grant	5,850	18,250
Interest on Investments	2,015	1,996
Interest on Special Assessments	38	132
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	7,903	20,378
	<hr/>	<hr/>
Change in Net Assets	8,364	(20,209)
<u>TOTAL NET ASSETS</u> - Beginning of Year	<hr/> 745,805	<hr/> 766,014
<u>TOTAL NET ASSETS</u> - End of Year	<hr/> <u>\$ 754,169</u>	<hr/> <u>\$ 745,805</u>

CITY OF LAKE CITY, MICHIGAN
WATER FUND
COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 150,154	\$ 135,305
Cash Payments to Suppliers for Goods and Services	(95,353)	(157,325)
Cash Payments to Employees for Services	(28,207)	(33,744)
	<u>26,594</u>	<u>(55,764)</u>
Cash Flows from Capital and Related Financing Activities:		
Collections of Special Assessments	71	51
Wellhead Protection Grant	5,850	18,250
Acquisitions and Construction of Capital Assets	(19,225)	0
	<u>(13,304)</u>	<u>18,301</u>
Net Cash Provided (Used) for Capital and Related Financing Activities		
	<u>(13,304)</u>	<u>18,301</u>
Cash Flows from Investing Activities:		
Interest on Investments	2,015	1,996
Interest on Special Assessments	38	132
	<u>2,053</u>	<u>2,128</u>
Net Cash Provided (Used) by Investing Activities		
	<u>2,053</u>	<u>2,128</u>
Net Increase (Decrease) in Cash and Cash Equivalents	15,343	(35,335)
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	<u>113,062</u>	<u>148,397</u>
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<u>\$ 128,405</u>	<u>\$ 113,062</u>

CITY OF LAKE CITY, MICHIGAN
WATER FUND
COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ 461	\$ (40,587)
Adjustments to reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	25,758	24,877
(Increase) Decrease in Current Assets		
Accounts Receivable	3,468	(2,946)
Due from Other Funds	(641)	36
Inventory	(2,547)	(538)
Prepaid Expense	(44)	(46)
Increase (Decrease) in Current Liabilities		
Accounts Payable	(13)	(35,930)
Other Accrued Expenses	179	(684)
Due to Other Funds	(27)	54
Total Adjustments	<u>26,133</u>	<u>(15,177)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 26,594</u>	<u>\$ (55,764)</u>

CITY OF LAKE CITY, MICHIGAN

SEWER FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 248,342	\$ 174,599
Accounts Receivable	8,817	12,746
Due from Other Funds	8,100	3,697
Prepaid Expense	1,477	1,428
Total Current Assets	<u>266,736</u>	<u>192,470</u>
<u>NONCURRENT ASSETS</u>		
<u>RESTRICTED ASSETS</u>		
Cash	143,910	141,748
Special Assessments Receivable	40,607	55,510
Total Restricted Assets	<u>184,517</u>	<u>197,258</u>
<u>CAPITAL ASSETS</u>		
Equipment and Vehicles	222,837	222,837
Collection and Treatment System	1,761,113	1,761,113
Less Accumulated Depreciation	<u>(899,983)</u>	<u>(853,036)</u>
Net Capital Assets	<u>1,083,967</u>	<u>1,130,914</u>
Total Noncurrent Assets	<u>1,268,484</u>	<u>1,328,172</u>
TOTAL ASSETS	<u>\$ 1,535,220</u>	<u>\$ 1,520,642</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 2,129	\$ 3,868
Accrued Expenses	2,952	1,930
Due to Other Funds	61	0
Total Liabilities	<u>5,142</u>	<u>5,798</u>
<u>NET ASSETS</u>		
Invested in Capital Assets	1,083,967	1,130,914
Restricted for Improvements	184,517	197,258
Unrestricted	<u>261,594</u>	<u>186,672</u>
Total Net Assets	<u>1,530,078</u>	<u>1,514,844</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,535,220</u>	<u>\$ 1,520,642</u>

CITY OF LAKE CITY, MICHIGAN

SEWER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>OPERATING REVENUES</u>		
Charges for Services and Connection Fees	\$ 217,100	\$ 196,320
<u>OPERATING EXPENSES</u>		
Personal Services	55,045	51,185
Retirement	3,000	3,000
Health Insurance	22,503	19,643
Uniforms	165	282
Supplies	4,044	2,752
Contracted Services	11,268	1,347
Audit and Accounting Fees	1,000	1,000
Utilities	21,105	22,322
Repairs and Maintenance	22,155	40,335
Laboratory Analysis	6,238	5,812
Equipment Rental	667	530
Insurance	10,993	11,088
Dues	3,941	3,905
Miscellaneous	80	296
Depreciation	46,947	47,186
Total Operating Expenses	<u>209,151</u>	<u>210,683</u>
Operating Income (Loss)	<u>7,949</u>	<u>(14,363)</u>

CITY OF LAKE CITY, MICHIGAN

SEWER FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest on Investments	2,435	2,050
Interest on Special Assessments	4,850	5,926
Other Revenue	0	431
	<u>7,285</u>	<u>8,407</u>
Total Nonoperating Revenues (Expenses)		
	<u>7,285</u>	<u>8,407</u>
Change in Net Assets	15,234	(5,956)
<u>TOTAL NET ASSETS</u> - Beginning of Year	<u>1,514,844</u>	<u>1,520,800</u>
<u>TOTAL NET ASSETS</u> - End of Year	<u>\$ 1,530,078</u>	<u>\$ 1,514,844</u>

CITY OF LAKE CITY, MICHIGAN
SEWER FUND
COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 216,626	\$ 194,568
Cash Payments to Suppliers for Goods and Services	(108,886)	(112,714)
Cash Payments to Employees for Services	(54,023)	(51,578)
	<u>53,717</u>	<u>30,276</u>
Cash Flows from Capital and Related Financing Activities:		
Collections of Special Assessments	14,903	10,456
Other Revenue Received	0	431
	<u>14,903</u>	<u>10,887</u>
Cash Flows from Investing Activities:		
Interest on Investments	2,435	2,050
Interest on Special Assessments	4,850	5,926
	<u>7,285</u>	<u>7,976</u>
Net Increase (Decrease) in Cash and Cash Equivalents	75,905	49,139
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	<u>316,347</u>	<u>267,208</u>
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	<u>\$ 392,252</u>	<u>\$ 316,347</u>

CITY OF LAKE CITY, MICHIGAN
SEWER FUND
COMPARATIVE STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ 7,949	\$ (14,363)
Adjustments to reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	46,947	47,186
(Increase) Decrease in Current Assets		
Accounts Receivable	3,929	(450)
Due from Other Funds	(4,403)	(1,242)
Prepaid Expense	(49)	(60)
Increase (Decrease) in Current Liabilities		
Accounts Payable	(1,739)	(402)
Other Accrued Expenses	1,022	(393)
Due to Other Funds	61	0
Total Adjustments	<u>45,768</u>	<u>44,639</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 53,717</u>	<u>\$ 30,276</u>

NONMAJOR SPECIAL REVENUE FUNDS

FIRE FUND

The Fire Fund accounts for revenue set aside for the purpose of providing fire protection services.

LAW FUND

The Law Fund accounts for revenue set aside for law enforcement.

CEMETERY FUND

The Cemetery Fund accounts for revenue set aside for the purpose of providing cemetery services for City residents.

CITY OF LAKE CITY, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET

MARCH 31, 2008

	<u>ASSETS</u>	<u>FIRE</u>	<u>LAW</u>	<u>CEMETERY</u>	<u>TOTALS</u>
Cash		\$ 46,287	\$ 37,672	\$ 30,693	\$ 114,652
Taxes Receivable		2,674	1,122	2,416	6,212
Due from Other Funds		12,215	5,372	7,442	25,029
Prepaid Expenditures		0	14	258	272
TOTAL ASSETS		<u>\$ 61,176</u>	<u>\$ 44,180</u>	<u>\$ 40,809</u>	<u>\$ 146,165</u>
	<u>LIABILITIES AND FUND BALANCE</u>				
	<u>LIABILITIES</u>				
Accounts Payable		\$ 0	\$ 61	\$ 143	\$ 204
Accrued Expenditures		0	0	65	65
Due to Other Funds		0	0	8	8
Deferred Revenue		128	53	115	296
Total Liabilities		<u>128</u>	<u>114</u>	<u>331</u>	<u>573</u>
	<u>FUND BALANCE</u>				
Reserved for Prepaid Expenditures		0	14	258	272
Unreserved		61,048	44,052	40,220	145,320
Total Fund Balance		<u>61,048</u>	<u>44,066</u>	<u>40,478</u>	<u>145,592</u>
TOTAL LIABILITIES					
AND FUND BALANCE		<u>\$ 61,176</u>	<u>\$ 44,180</u>	<u>\$ 40,809</u>	<u>\$ 146,165</u>

CITY OF LAKE CITY, MICHIGAN

NONMAJOR SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2008

	<u>FIRE</u>	<u>LAW</u>	<u>CEMETERY</u>	<u>TOTALS</u>
<u>REVENUES</u>				
Taxes	\$ 28,068	\$ 12,125	\$ 24,939	\$ 65,132
State Grants	0	2,394	0	2,394
Charges for Services	0	0	19,905	19,905
Interest	165	86	55	306
Total Revenues	28,233	14,605	44,899	87,737
<u>EXPENDITURES</u>				
General Government	0	0	33,090	33,090
Public Safety	21,634	10,282	0	31,916
Total Expenditures	21,634	10,282	33,090	65,006
Excess (Deficiency) of Revenues Over Expenditures	6,599	4,323	11,809	22,731
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfer In				
General Fund	0	0	0	0
Net Change in Fund Balance	6,599	4,323	11,809	22,731
<u>FUND BALANCE</u> - Beginning of Year	54,449	39,743	28,669	122,861
<u>FUND BALANCE</u> - End of Year	\$ 61,048	\$ 44,066	\$ 40,478	\$ 145,592

CITY OF LAKE CITY, MICHIGAN
FIRE FUND
COMPARATIVE BALANCE SHEET
MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash	\$ 46,287	\$ 41,030
Taxes Receivable	2,674	3,583
Due from Other Funds	12,215	4,374
Prepaid Expenditures	0	5,581
 TOTAL ASSETS	 <u>\$ 61,176</u>	 <u>\$ 54,568</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Deferred Revenue	\$ 128	\$ 119
 <u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	0	5,581
Unreserved		
Designated for Fire Protection	61,048	48,868
 Total Fund Balance	 <u>61,048</u>	 <u>54,449</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 61,176</u>	 <u>\$ 54,568</u>

CITY OF LAKE CITY, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2007

	2008		2007
	BUDGET	ACTUAL	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 24,252	\$ 28,068	\$ 25,755
Interest	100	165	130
Total Revenues	24,352	28,233	25,885
<u>EXPENDITURES</u>			
Public Safety			
Contracted Services	1,000	840	0
Hydrant Rental	8,400	8,400	8,400
Audit	450	450	450
Miscellaneous	0	38	1,016
Aid to Other Governments	11,900	11,906	11,164
Total Expenditures	21,750	21,634	21,030
Excess (Deficiency) of Revenues Over Expenditures	2,602	6,599	4,855
<u>FUND BALANCE</u> - Beginning of Year	54,449	54,449	49,594
<u>FUND BALANCE</u> - End of Year	\$ 57,051	\$ 61,048	\$ 54,449

CITY OF LAKE CITY, MICHIGAN

LAW FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	2008	2007
<u>ASSETS</u>		
Cash	\$ 37,672	\$ 37,007
Taxes Receivable	1,122	1,433
Due from Other Funds	5,372	1,389
Prepaid Expenditures	14	17
TOTAL ASSETS	<u>\$ 44,180</u>	<u>\$ 39,846</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 61	\$ 55
Deferred Revenue	53	48
Total Liabilities	<u>114</u>	<u>103</u>
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	14	17
Unreserved		
Designated for Law Enforcement	<u>44,052</u>	<u>39,726</u>
Total Fund Balance	<u>44,066</u>	<u>39,743</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 44,180</u>	<u>\$ 39,846</u>

CITY OF LAKE CITY, MICHIGAN

LAW FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2007

	<u>2008</u>		<u>2007</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 10,105	\$ 12,125	\$ 10,673
State Grants	2,300	2,394	2,310
Interest	75	86	117
Total Revenues	<u>12,480</u>	<u>14,605</u>	<u>13,100</u>
<u>EXPENDITURES</u>			
Public Safety			
Personal Services	660	430	1,010
Health and Life Insurance	500	455	422
Contracted Services	9,000	8,639	16,862
Supplies	185	171	124
Audit	500	500	500
Equipment Rentals	100	69	201
Insurance	100	0	115
Miscellaneous	25	18	7
Total Expenditures	<u>11,070</u>	<u>10,282</u>	<u>19,241</u>
Excess (Deficiency) of Revenues Over Expenditures	1,410	4,323	(6,141)
<u>FUND BALANCE</u> - Beginning of Year	<u>39,743</u>	<u>39,743</u>	<u>45,884</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 41,153</u>	<u>\$ 44,066</u>	<u>\$ 39,743</u>

CITY OF LAKE CITY, MICHIGAN

CEMETERY FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	2008	2007
<u>ASSETS</u>		
Cash	\$ 30,693	\$ 24,615
Taxes Receivable	2,416	2,150
Due from Other Funds	7,442	2,058
Prepaid Expenditures	258	250
TOTAL ASSETS	<u>\$ 40,809</u>	<u>\$ 29,073</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 143	\$ 86
Accrued Expenditures	65	246
Due to Other Funds	8	0
Deferred Revenue	115	72
Total Liabilities	<u>331</u>	<u>404</u>
<u>FUND BALANCE</u>		
Reserved for Prepaid Expenditures	258	250
Unreserved	40,220	28,419
Total Fund Balance	<u>40,478</u>	<u>28,669</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 40,809</u>	<u>\$ 29,073</u>

CITY OF LAKE CITY, MICHIGAN

CEMETERY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED MARCH 31, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR YEAR ENDED MARCH 31, 2007

	<u>2008</u>		<u>2007</u>
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Taxes	\$ 25,263	\$ 24,939	\$ 16,008
Charges for Services	19,000	19,905	11,325
Interest	10	55	29
Total Revenues	44,273	44,899	27,362
<u>EXPENDITURES</u>			
General Government			
Personal Services	15,500	13,775	14,974
Health and Life Insurance	11,100	10,885	10,017
Uniforms	200	122	0
Supplies	325	294	234
Contracted Services	3,000	2,870	1,114
Audit	450	450	450
Utilities	300	291	245
Gas and Oil	900	669	562
Repairs and Maintenance	900	771	479
Equipment Rentals	1,600	1,532	1,116
General Insurance	1,650	1,428	1,849
Miscellaneous	150	3	10
Total Expenditures	36,075	33,090	31,050
Excess (Deficiency) of Revenues Over Expenditures	8,198	11,809	(3,688)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfer In			
General Fund	0	0	8,000
Net Change in Fund Balance	8,198	11,809	4,312
<u>FUND BALANCE</u> - Beginning of Year	28,669	28,669	24,357
<u>FUND BALANCE</u> - End of Year	\$ 36,867	\$ 40,478	\$ 28,669

INTERNAL SERVICE FUND

EQUIPMENT FUND

The Equipment Fund accounts for the rental of equipment to other departments and related costs.

CITY OF LAKE CITY, MICHIGAN
EQUIPMENT FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 214,944	\$ 186,118
Prepaid Insurance	1,199	1,253
Total Current Assets	<u>216,143</u>	<u>187,371</u>
<u>NONCURRENT ASSETS</u>		
<u>CAPITAL ASSETS</u>		
Equipment	435,119	429,507
Less Accumulated Depreciation	<u>(319,473)</u>	<u>(290,782)</u>
Net Capital Assets	<u>115,646</u>	<u>138,725</u>
TOTAL ASSETS	<u><u>\$ 331,789</u></u>	<u><u>\$ 326,096</u></u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 3,436	\$ 4,332
Due to Other Funds	6	8
Accrued Expenses	<u>49</u>	<u>567</u>
TOTAL LIABILITIES	<u>3,491</u>	<u>4,907</u>
<u>NET ASSETS</u>		
Invested in Capital Assets	115,646	138,725
Unrestricted	<u>212,652</u>	<u>182,464</u>
TOTAL NET ASSETS	<u>328,298</u>	<u>321,189</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 331,789</u></u>	<u><u>\$ 326,096</u></u>

CITY OF LAKE CITY, MICHIGAN

EQUIPMENT FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>OPERATING REVENUES</u>		
Charges for Services		
Equipment Rental	\$ 77,914	\$ 74,741
<u>OPERATING EXPENSES</u>		
Personal Services	4,366	6,197
Health and Life Insurance	2,266	1,798
Supplies	4,201	474
Gasoline and Oil	10,064	6,319
Audit	500	500
Repairs and Maintenance	13,347	12,758
Insurance	9,455	9,509
Miscellaneous	0	49
Contracted Services	314	0
Depreciation	28,691	29,916
Total Operating Expenses	73,204	67,520
Operating Income (Loss)	4,710	7,221
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest Revenue	2,399	2,335
Change in Net Assets	7,109	9,556
<u>TOTAL NET ASSETS - Beginning of Year</u>	321,189	311,633
<u>TOTAL NET ASSETS - End of Year</u>	\$ 328,298	\$ 321,189

CITY OF LAKE CITY, MICHIGAN

EQUIPMENT FUND
COMPARATIVE STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Interfund Services		
Provided and Used	\$ 77,914	\$ 74,747
Cash Payments to Suppliers for Goods and Services	(40,991)	(28,478)
Cash Payments to Employees for Services	(4,884)	(5,946)
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	32,039	40,323
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	(5,612)	(56,273)
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Interest on Investments	2,399	2,335
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	28,826	(13,615)
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	186,118	199,733
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 214,944	\$ 186,118
	<hr/>	<hr/>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH</u> <u>PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	\$ 4,710	\$ 7,221
	<hr/>	<hr/>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	28,691	29,916
(Increase) Decrease in Current Assets		
Due from Other Funds	0	6
Prepaid Insurance	54	(58)
Increase (Decrease) in Current Liabilities		
Accounts Payable	(896)	2,979
Accrued Expenses	(518)	251
Due to Other Funds	(2)	8
	<hr/>	<hr/>
Total Adjustments	27,329	33,102
	<hr/>	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 32,039	\$ 40,323
	<hr/>	<hr/>

AGENCY FUNDS

TAX COLLECTION FUND

The Tax Collection Fund accounts for the collection and payment of property tax levies received by the City in an agency capacity.

CITY OF LAKE CITY, MICHIGAN

TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED MARCH 31, 2008

	BALANCE			BALANCE
	4/1/2007	INCREASES	DECREASES	3/31/2008
<u>ASSETS</u>				
Cash	\$ 939	\$ 1,129,384	\$ 819,719	\$ 310,604
Due from Other Governments	327	0	327	0
TOTAL ASSETS	\$ 1,266	\$ 1,129,384	\$ 820,046	\$ 310,604
<u>LIABILITIES</u>				
Accounts Payable	\$ 0	\$ 4,105	\$ 4,105	\$ 0
Due to Other Governments	1,266	834,432	604,562	231,136
Due to Other Funds	0	290,847	211,379	79,468
TOTAL LIABILITIES	\$ 1,266	\$ 1,129,384	\$ 820,046	\$ 310,604

COMPONENT UNITS

DOWNTOWN DEVELOPMENT AUTHORITY FUND

The Downtown Development Authority Fund is designed to assist in the economic growth of the central business district.

DOWNTOWN DEVELOPMENT AUTHORITY 2000 DEBT RETIREMENT FUND

The Downtown Development Authority 2000 Debt Retirement Fund accounts for the accumulation of resources to pay the 2000 DDA Bond principal and interest.

CITY OF LAKE CITY, MICHIGAN

COMPONENT UNITS
COMBINING BALANCE SHEET

MARCH 31, 2008
WITH COMPARATIVE TOTALS FOR MARCH 31, 2007

	DOWNTOWN DEVELOPMENT AUTHORITY FUND	DOWNTOWN DEVELOPMENT AUTHORITY DEBT RETIREMENT FUND	TOTALS	
			2008	2007
<u>ASSETS</u>				
Cash	\$ 114,715	\$ 0	\$ 114,715	\$ 131,399
Taxes Receivable	11,711	0	11,711	16,277
Due from Other Funds	0	1,230	1,230	1,230
Due from Other Governments	71,335	0	71,335	14,223
TOTAL ASSETS	<u>\$ 197,761</u>	<u>\$ 1,230</u>	<u>\$ 198,991</u>	<u>\$ 163,129</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Due to Other Funds	\$ 1,230	\$ 0	\$ 1,230	\$ 1,230
Due to Other Governments	0	0	0	327
Total Liabilities	<u>1,230</u>	<u>0</u>	<u>1,230</u>	<u>1,557</u>
<u>FUND BALANCE</u>				
Reserved	0	1,230	1,230	1,230
Unreserved	196,531	0	196,531	160,342
Total Fund Balance	<u>196,531</u>	<u>1,230</u>	<u>197,761</u>	<u>161,572</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 197,761</u>	<u>\$ 1,230</u>	<u>\$ 198,991</u>	<u>\$ 163,129</u>

CITY OF LAKE CITY, MICHIGAN

COMPONENT UNITS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2008

WITH COMPARATIVE TOTALS FOR YEAR ENDED MARCH 31, 2007

	DOWNTOWN DEVELOPMENT AUTHORITY FUND	DOWNTOWN DEVELOPMENT AUTHORITY DEBT RETIREMENT FUND	TOTALS	
			2008	2007
<u>REVENUES</u>				
Taxes	\$ 68,424	\$ 0	\$ 68,424	\$ 59,603
Interest	1,540	0	1,540	692
Total Revenues	69,964	0	69,964	60,295
<u>EXPENDITURES</u>				
Debt Service				
Principal	0	20,000	20,000	20,000
Interest	0	13,775	13,775	14,850
Total Expenditures	0	33,775	33,775	34,850
Excess (Deficiency) of Revenues Over Expenditures	69,964	(33,775)	36,189	25,445
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	0	33,775	33,775	34,850
Transfers Out	(33,775)	0	(33,775)	(34,850)
Total Other Financing Sources (Uses)	(33,775)	33,775	0	0
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other (Uses)	36,189	0	36,189	25,445
<u>FUND BALANCE</u> - Beginning of Year	160,342	1,230	161,572	136,127
<u>FUND BALANCE</u> - End of Year	\$ 196,531	\$ 1,230	\$ 197,761	\$ 161,572

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash	\$ 114,715	\$ 131,399
Taxes Receivable	11,711	16,277
Due from Other Governments	71,335	14,223
TOTAL ASSETS	<u>\$ 197,761</u>	<u>\$ 161,899</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Due to Other Funds	\$ 1,230	\$ 1,230
Due to Other Governments	0	327
Total Liabilities	1,230	1,557
<u>FUND BALANCE</u>		
Unreserved	<u>196,531</u>	<u>160,342</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 197,761</u>	<u>\$ 161,899</u>

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY FUND

COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31,

	2008	2007
<u>REVENUES</u>		
Taxes	\$ 68,424	\$ 59,603
Interest	1,540	692
Total Revenues	69,964	60,295
<u>EXPENDITURES</u>		
Economic Development		
Improvements/Repairs and Maintenance	0	0
Excess (Deficiency) of Revenues Over Expenditures	69,964	60,295
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers (Out)	(33,775)	(34,850)
Net Change in Fund Balance	36,189	25,445
<u>FUND BALANCE</u> - Beginning of Year	160,342	134,897
<u>FUND BALANCE</u> - End of Year	\$ 196,531	\$ 160,342

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY 2000 DEBT RETIREMENT FUND
COMPARATIVE BALANCE SHEET

MARCH 31,

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Due from Other Funds	<u>\$ 1,230</u>	<u>\$ 1,230</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>FUND BALANCE</u>		
Reserved for Debt Service	<u>1,230</u>	<u>1,230</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,230</u>	<u>\$ 1,230</u>

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY 2000 DEBT RETIREMENT FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31,

	2008	2007
<u>REVENUES</u>	\$ 0	\$ 0
<u>EXPENDITURES</u>		
Debt Retirement		
Principal	20,000	20,000
Interest on Bonded Debt	13,775	14,850
Total Expenditures	33,775	34,850
Excess (Deficiency) of Revenues Over Expenditures	(33,775)	(34,850)
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers In	33,775	34,850
Net Change in Fund Balance	0	0
<u>FUND BALANCE</u> - Beginning of Year	1,230	1,230
<u>FUND BALANCE</u> - End of Year	\$ 1,230	\$ 1,230

CITY OF LAKE CITY, MICHIGAN

DOWNTOWN DEVELOPMENT SERIES 2000 BONDS PAYABLE

MARCH 31, 2008

<u>DATE OF ISSUE</u>	May 1, 2000		
<u>AMOUNT OF ISSUE</u>		\$	350,000
<u>AMOUNT REDEEMED</u>			
Prior Years	\$	95,000	
Current Year		<u>20,000</u>	<u>115,000</u>
<u>BALANCE OUTSTANDING</u> - March 31, 2008			<u>\$ 235,000</u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
May 1, 2008	5.45 %	\$ 25,000	\$ 6,618	\$ 31,618
November 1, 2008			5,936	5,936
May 1, 2009	5.50 %	25,000	5,936	30,936
November 1, 2009			5,249	5,249
May 1, 2010	5.55 %	25,000	5,249	30,249
November 1, 2010			4,555	4,555
May 1, 2011	5.60 %	30,000	4,555	34,555
November 1, 2011			3,715	3,715
May 1, 2012	5.65 %	30,000	3,715	33,715
November 1, 2012			2,868	2,868
May 1, 2013	5.70 %	30,000	2,868	32,868
November 1, 2013			2,013	2,013
May 1, 2014	5.75 %	35,000	2,013	37,013
November 1, 2014			1,006	1,006
May 1, 2015	5.75 %	35,000	1,006	36,006
		<u>\$ 235,000</u>	<u>\$ 57,302</u>	<u>\$ 292,302</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
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July 2, 2008

To the City Council
City of Lake City
Lake City, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lake City, Michigan, as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Lake City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified the following deficiencies in internal control that we consider to be significant deficiencies.

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the City and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Utility Receivable Reconciliations

Balances from the utilities billing software are not being reconciled to the related accounts receivable control account balances in the Water and Sewer Funds. The account balances in these funds general ledgers should be reconciled to the aged accounts receivable report generated by the billing software on a monthly basis to ensure that all billing and collection transactions are being recorded properly. Care must be taken that the same cutoff date is used for depositing and recording receipts in the general ledgers as is used for posting transactions to the billing program.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiencies described above are material weaknesses.

This communication is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

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July 2, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the City Council
City of Lake City
Lake City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lake City for the year ended March 31, 2008, and has issued our report thereon dated July 2, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated May 18, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City of Lake City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Lake City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Lake City's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal

programs for the purpose of expressing an opinion on the City of Lake City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Lake City's compliance with those requirements.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Lake City are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed several adjusting journal entries which were reviewed and accepted by management. No material misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 2, 2008.

Other Audit Findings or Issues

During the course of our audit of the basic financial statements of the City of Lake City for the year ended March 31, 2008, we noted no additional items which we feel deserve comment.

Condition of Accounting Records and Accounting Controls

We would like to thank the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on an annual basis to ensure they are adequate and operating as intended.

This communication is intended solely for the information and use of the City Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.